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MEMORANDUM

TO: Conway Collis & Members of the Lifting Children and Families Out of Poverty Task Force

FROM: Dan Dunmoyer, President & CEO
Nick Cammarota, Sr. VP & General Counsel

DATE: August 20, 2018

SUBJECT: Housing & Homelessness Policies/Programs

Thank you for reaching out to us to provide some input on the topics of subsidized affordable housing, inclusionary zoning policy, housing vouchers, rent control, LIHEAP, and homelessness. Members of the California Building Industry Association provide approximately 80% of all new homes built in California every year. Providing safe and stable living situations for children and families for all Californians is a goal we share.

We'd like to begin with some challenges we face with 2 of the policies you cover, namely, inclusionary zoning and rent control.

Incorporating affordable housing into a project.

In a recent study, *Inclusionary Zoning – Good Intentions, Bad Results*, April 2016, Genest & Williams, analyzed the cost impact on market rate homes due to inclusionary requirements. On average, inclusionary zoning adds \$66,562 to the average market priced home in California. At the time of the study, that represents a 10.6% tax on new home buyers or new home renters who are already struggling to afford a home in California. In the Bay area, it added \$97,614 or 11.7% to the cost of a new home. We would be happy to provide you with a copy of the study if you would like.

Unlike some other programs designed to help lift people out of poverty, there is no government funding to reimburse the homebuilder for these additional costs. Instead, other homebuyers must pay a higher price for housing to make up for the difference between the cost to produce the affordable housing and the amount paid by the buyer or renter. This has resulted in a loss of production of housing that is affordable to the middle class. For reasons we will explain, that needs to change if we are to satisfy our mandate to produce housing for all Californians.

Inclusionary zoning and rent control are predicated on the belief that there is an ever-greater number of home buyers and renters who can subsidize affordable homes. Yet there is no evidence that this is the case. All the evidence is to the contrary. In 2016, a \$1,000 increase in home cost prices out 15,328 households from being able to afford a roof over their head. See, NAHB Releases the 2016 "Priced Out" Estimates, <http://eyeonhousing.org/2016/12/nahb-releases-the-2016-priced-out-estimates/>. Therefore, the greater the increase in the price of a home (whether to subsidize affordable housing or any other reason), the fewer number of qualified people there are available to purchase or rent. This results in fewer affordably priced homes for those in lower income categories.

Public subsidies come with a prevailing wage requirement, making all the homes within the project even more expensive. A recent study indicated that prevailing wage requirements add \$84,000 to the statewide average cost to construct a new home. (See, http://www.myCHF.org/uploads/5/1/5/0/51506457/prevaling_wage_20170824.pdf.) The prevailing wage requirement would apply not only to the subsidized homes but also to the non-subsidized homes that are included in the project.

Neighborhood Opposition

The process to obtain a permission to build a residential project in California contains multiple robust opportunities for neighbors of the project to voice opposition to it. Local governments have proven to be a strong ally to these existing voters. They also have strong legal rights (see for example, the California Environmental Quality Act) to file lawsuits against the project if it is approved. This has resulted in delays to the production of housing for a decade or more. Affordable housing, in particular, is strongly opposed by neighbors to the project. (See, e.g., *A California For Everyone*, describing community opposition to a Habitat for Humanity project, <https://vimeo.com/242696428>).

According to the most recent data, the percentage of CEQA lawsuits aimed at infill projects has jumped from 80% (2010-2012) to 87% (2013-2015). One hundred percent of Bay Area CEQA housing lawsuits and 98% of the LA region's CEQA housing lawsuits target infill housing. Seventy percent of the LA region's CEQA litigation targeted transit oriented higher density housing. (See, *California Environmental Quality Act Lawsuits and California's Housing Crisis*, Jennifer Hernandez, Hastings Environmental Law Journal, Volume 24, No. 1, Winter 2018, p. 28, 30, 32. (http://journals.uchastings.edu/journals/websites/west-northwest/HELJ_V_24_1.pdf). Statewide, new housing projects – both infill and greenfield – are the most frequent target of CEQA lawsuits for which there is a private sector applicant. In the most recent data (2013-2015) 25% of new housing projects were subjected to CEQA lawsuits – that's up 4% from 2010-2012. The percentage of CEQA lawsuits challenging higher density multifamily/mixed use housing projects like apartments and condominiums also increased—from 45% to 49%. See, *California Environmental Quality Act Lawsuits and California's Housing Crisis*, Jennifer Hernandez, Hastings Environmental Law Journal, Volume 24, No. 1, Winter 2018, p.29, (http://journals.uchastings.edu/journals/websites/west-northwest/HELJ_V_24_1.pdf.)

All of this means that requiring inclusionary housing or prevailing wage should come with a government subsidy that on average amounts to \$150,000 per home in the project. In addition, if the goal is to truly achieve true affordability in affordable housing projects, then serious consideration must be given to providing an exemption from the public notice, hearing and comment opportunities under existing law and be approved as a ministerial (“by right”), exempt from CEQA, decision by a local government.

We would be happy to discuss these and other ideas with you that could be used to make housing more affordable for everyone, especially those who struggle the most financially. Again, thank you for the opportunity to present our views.